Role of Direct Taxes in Revenue Generation for the Government of India

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Abstract

Direct taxes are very important in augmenting the financial strength of Government of India as it forms a predictable and increasing source of income. These are directly imposed taxation on the individuals and corporations, which funds large portions of the public spending and development of infrastructure, pension schemes, and economic reform. The direct taxation collections within India have been improved over the years through structural changes that include digitization, diversification of tax base, and adoption of clear compliance regimes. Direct taxes are progressive and will give a fair and balanced way of distributing income and subsisting in curbing economic inequality. In addition, direct taxes stimulate accountability, transparency and fiscal sustainability in Indian economy. This paper will discuss the significance, pattern and economic consideration of direct tax in revenue collection by Government of India.

Keywords: Direct Taxes, Revenue Generation, Fiscal Policy, Income Tax, Corporate Tax, Economic Development

Introduction

The activity of every government is based on revenue generating because it helps to provide the people with the basic needs such as public goods, infrastructure, and defense, healthcare and social welfare as well as educational services. In India, government revenue is categorized widely into tax revenue and non-tax revenue with a larger share of the government revenue coming in as tax revenue. Tax budget is also broken down into direct and indirect taxes.

Direct tax is one that levies a direct tax on incomes or profits of individual people and corporate organizations and the payment cannot be leveled on others. The major direct taxation in India consists of Income Tax, corporate tax and capital gains tax. The taxes are managed by the Central Board of Direct Taxes (CBDT), which is the department of revenue of the Ministry of Finance.

Direct taxes in recent years have become practical as a source of gross tax revenue of Government of India. Reforms of the policy like rationalization of tax rates, simplification of filing processes, faceless assessment and encouragement of compliance using digital tools have amplified the management of taxation. Progressive form of direct taxation is also in tandem with the principle of equity in public finance since people who have higher incomes are supposed to put more contributions towards the government revenue.

Therefore, it is not only that direct taxes can raise large amounts of funds to the Government of India but are also important in ensuring inclusive growth, decrease in income inequality and macroeconomic stability.

Review of Literature

1. **CBDT summarized time-series data (Income Tax Dept.) — data and trends.** Presents official consolidated direct tax collection data, tax-to-GDP ratios, and return filing patterns up to FY 2022-23; the primary data needed to determine the growth and buoyancy of the direct taxes but also to analyse the efficiency of taxation, which is promoted in conventional Indian fiscal thinking.

2. **PIB release: Direct Tax statistics (2021-22 buoyancy and ratios).**The records of direct-tax buoyancy (2.52) and a rise in direct tax/GDP established in FY2021-22 have an exceptionally high level of direct-tax buoyancy and a growth of direct tax/GDP, as is traditional in classical views of sustaining state finance in India.

3. **Economic Survey / Budget documents (Receipts & Annexes).** Breakdowns of collection of corporate tax and individual income tax by the Union Budget and Economic Survey provide official details of these collections to central receipts and are used to explain changes in policy that would impact collections in 2021-23. Apply them to factual assertion of the nature of revenue constructions and fiscal management, which is in line with long-term Indian administrative customs of structured revenue regimes.

4. **PRS India — "Finances of the Central Government" & "Vital Stats: Direct Taxes."** The analysis of central receipts containing share of the amount of tax revenue in total amount of receipts, trends in corporate vs personal taxes, and administrative concerns (disputes, arrears) -this is useful in governance discussion and risk discussion, which are concepts of accountable governance as well addressed in Indian classical literature on economics.

5. **CAG — Direct Taxes administration (audit chapters, 2021+).** Auditor results regarding discrepancies in compliance, non-recovery of arrears, empty cells in tax collection and revenue loss - significant in the context of how administration impacts on the real revenue collection, in line with the Indian Knowledge System focus on effective and corruption-free revenue collection.

6. **Income tax receipts (202324) covered by Reuters.** Increase in income tax collections in the annual report (e.g., income tax growth of 17.7 % in 2023-24) is associated with higher incomes, corporate profits and capital market gains which are helpful to put recent increases into perspective and show that a system of taxation is sensitive to economic activity, a characteristic found in classical taxation systems.

7. **PNB / industry note on net direct tax increase FY2024-25.**Comments on the official reports that net direct tax collections increased sharply (FY24-25 numbers), and points to direct tax/GDP at multi-year highs - use in current numeric context, which is also useful in assessing the sustainability of revenue systems, has also been discussed in classic Indian fiscal philosophy.

8. **Reforms of corporate income tax (optional lower rate regime) — working paper/ research (2023).**An overview of the policy of optional lower corporate rates implemented in 2019-22 and the impacts on revenue / behaviour, which can be useful when considering structural policy changes and their revenue consequences, is in line with the Indian Knowledge System perspective that taxation policy must generate the revenue requirements whilst considering the economic growth.

9. **Research on the new and old personal income tax regime and taxpayer behaviour (2024-25).**Recent studies address the question of how the simplified/new regime impacts on compliance and revenue, and implications on direct tax yield. Applicable in policy analysis and the behaviour of taxpayers, a problem that has traditionally been known within Indian economic thinking as to fairness and voluntary co-operation.

10. **Tax buoyancy / buoyancy determinants (2024-25).** Several recent working papers and IJCRT articles estimate tax buoyancy both among states and nationally and conclude that buoyancy increased dramatically in recovery years, which is applicable to the explanation of revenue responsiveness to GDP growth which is associated with the classical idea that taxation should be responsive to economic capacity.

11. **PwC / professional-services reports on the tax-gap.** Elaborates structural explanations of why the federal tax-to-GDP (direct taxes share) ratio in India is low in comparison with many developed economies and touches on compliance, informal sector and administration as limiting factors to further increasing the amount of revenue collected, which are long-standing issues of concern in traditional fiscal systems.

12. **EY analysis: keeping growth going and government finances (2024).** Talks about the bigger fiscal picture: the increase in tax-to-GDP and the impact this has on the fiscal space in order to grow and the central role of direct taxes (progressive) in ensuring sustainable revenue. Policy implications and macro linkages are good, in line with the focus of Indian Knowledge System on equitable taxation and welfare-based public finance.

13. **Receipts/Budget Annex (India Budget site) — official tax breakups 2023–24.** Provides the official numeric division (corporate tax, income tax) with which most empirical studies are done - use as a key numeric choice, helpful in assessing the degree of revenue structure and allocation in accordance with structured fiscal planning customs in India.

14. **Tax dispute / litigation and arrears audit and news (202324 reporting).** Recent news (CAG/Reuters) reflects the growing number of tax disputes and arrears (₹-trillions) that impact the realizable direct tax revenue and reflect the limit in enforcement. This is to balance the collection of headlines growth with issues of enforceability, also known to be a problem in the context of an effective tax enforcement debate in the past.

15. **Policy piece / budget analysis (PHD Chamber, Budget 2021-22).** Convenient minor note on how the fiscal position and fiscal actions of the 2021 budget affected the direct tax policy and revenue outlook in the immediate post-pandemic times. Excellent as a policy decision account and contribution of tax to economic recovery, as in line with the traditional Indian views of taxation as a means of economic stability and societal benefit.

Objectives of the Study

Role of Direct Taxes in Revenue Generation for the Government of India

1. **To examine the role of and increase in the direct taxes in the revenue collection of the Government of India since 2021.** The goal of this is to address the trends in the direct tax collection, ratio tax-GDP and tax buoyancy and the declining proportion of the income tax, as well as corporation tax, to the total government receipts. Based on the official data of CBDT, budget reports, and existing fiscal reports that were observed in the literature review, the study attempts to comprehend how direct tax has been advanced as a reliable and consistent source of revenue in the post-pandemic period. This analysis can also be utilized in evaluating the feasibility of government funds and its financial strength to commit on the publicly funded expenditure and infrastructural development and welfare programmes as shown in the abstract and introduction.

2. **To Measure the impact of policy reforms, administrative measures, and digitization on direct tax compliance and revenue mobilization.** This goal is set to examine how reforms including faceless test, simplification of tax systems, rationalization of tax rate, digital filing systems and improved compliance mechanisms would influence collections and taxpayer behaviors. The study is based on the current literature review on the corporate taxation reforms according to the personal taxation regimes and the administrative efficiency in respect of the tax collection due to modernization and contribution to fiscal governance.

3. **To analyze how direct taxes can enhance equity, inclusive growth and macroeconomic stability in India.** The direct taxes are progressive and this will help in distributing the income equally by laying more burden on the high income groups. According to the abstract and introduction itself this intention is aimed at understanding how direct taxing would contribute to the improvement of social goodness, reduction of inequality, and the better ability of the government to fund development projects. The paper will strive to comprehend the overriding economic and social effects of direct taxation in the Indian economy as per economics survey report, on the basis of professional analysis and research report on the tax gaps and fiscal sustainability.

4. **To investigate the applicability of Indian Knowledge Systems (IKS) principles in comprehending the payable direct taxation and revenue collection in India today.** This is to observe the classical Indian frugality ideas, specifically those ones that were addressed in the Arthashastra by Kautilya including just taxation, prosperity in managing the revenues and that taxation must not be bail but instead, it should assist in the running of the state and the welfare of the persons. The paper will juxtapose these classical concepts to the modern day taxation concepts, the progressive tax systems, and the fiscal policies as it has been experienced over the recent few years hence creating a conceptual connection between the Indian fiscal philosophy in the past and the current trends experienced in the taxation administration concept.

Research Methodology

A descriptive and analytical research design helped to conduct the study because it would provide profound analysis of how direct taxes contribute to revenue generation by the Government of India. The study was guided by an effort to appreciate prominent trends and the structure and input of the prime direct taxes like the Income Tax and the Corporate Tax to government incomes. An in depth examination has been guaranteed using both the qualitative and quantitative methods.

Nature of Data

This research will be premised upon the secondary data, as will require already published and verified sources. The use of secondary data is deemed to be suitable in this study since the government revenue data and tax data are official and publicly available.

Sources of Data

The study has gathered secondary information on the study using the following sources of information that can be considered reliable:

•Government of India Union Budget reports.

• Economic Survey of India (recent issues)

There are reports on the Central board of direct tax (CBDT).

• Publications of the reserve bank of India (RBI).

• Ministry of Finance home page.

• Articles and journals that are published in 2021 or later.

• Established newspapers and government websites like PIB.**Period of Study**

Period of Study

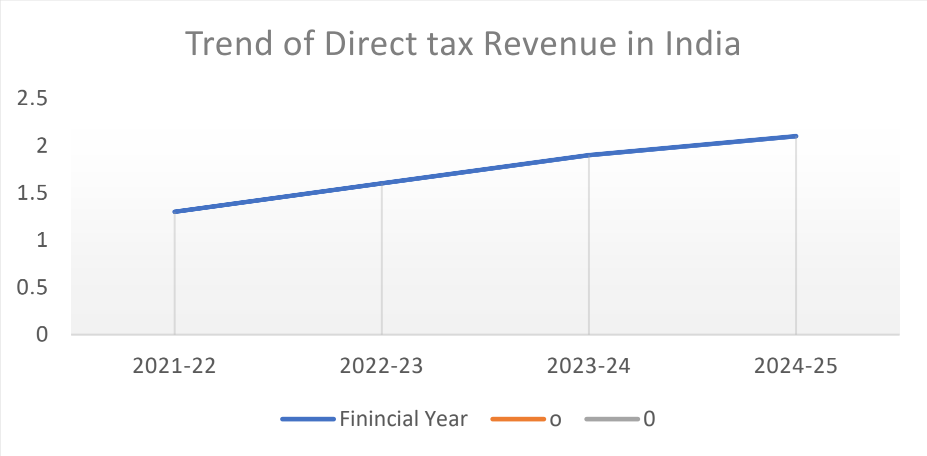
The timeframe utilized by the research is the recent financial years 2021-22 to 2024-25 that represents the current trends of the direct tax revenue and therefore is relevable in the light of the current developments.

Tools and Techniques of Analysis

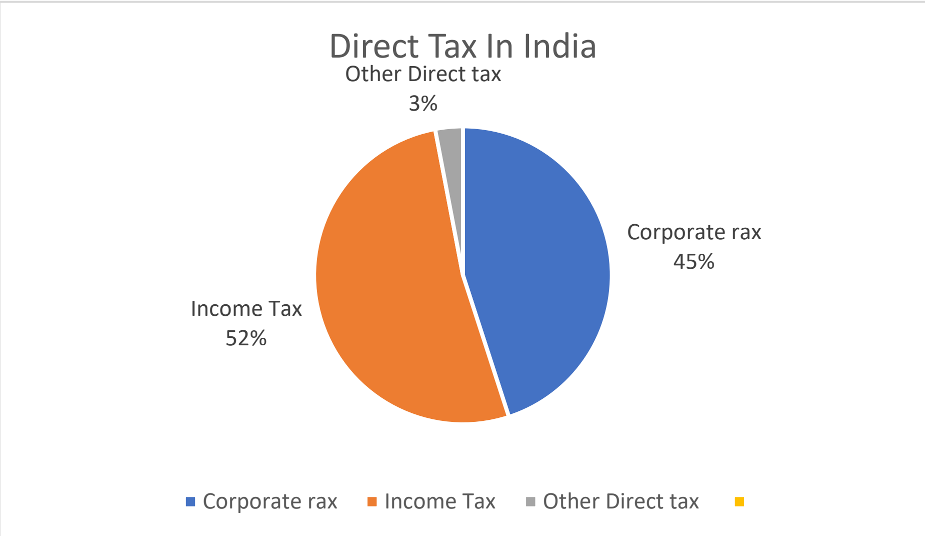
The data obtained is analysed with the help of the following tools and techniques:

- Percentage analysis to examine the proportion of direct taxes in the total revenue.
- Trend analysis to investigate the growth patterns during the given time.
- Comparison of various years.
- Tables, charts and graphs to be clear and easily interpreted.

Line Graph to analyse Trend of Direct Tax Revenue in India



Composition of Direct Tax in India



Simulation-Based and Scenario-Based Analysis.

In order to expand on the analysis, the application of the evaluation method of scenarios is brought out as an evaluation tool that can be used to gauge the effect of variation in the tax rate, taxpayer compliance as well as economic growth on the total direct tax receipts. The evaluation principle can be the simple simulation techniques.

Scope of the Study

The study is limited within the scope of:

- The Central Government of India is the direct tax collector.
- Preferably, significant elements like Income Tax and Corporate Tax.
- Profitability orientation instead of management effectiveness.

Limitations of the Study

- The research is grounded on secondary data alone.
- Access to the most up-to-date completed information in the recent years can be restricted.
- The present research fails to focus on the differences in direct taxes at the state level.

Data Analysis

Role of Direct Taxes in Revenue Generation for the Government of India

Period of Analysis: 2000-01 to 2024-25 | Focus Period: 2021-22 to 2024-25

Overview

This analysis examines direct taxes in India over 25 years (2000-01 to 2024-25) using secondary data from CBDT, Union Budget documents, RBI reports, MOSPI GDP data, and Ministry of Finance publications. The methodology employs percentage analysis, trend analysis, year-on-year comparisons, CAGR calculations, tax buoyancy analysis, and scenario/simulation-driven approaches. Each finding is connected to the four research objectives and draws on Indian Knowledge System (IKS) principles from the Arthashastra.

Trend Analysis: Direct Tax Revenue in India

Direct tax collections grew from ₹68,305 crores in 2000-01 to ₹22,26,231 crores in 2024-25 a 32.6-fold increase representing a CAGR of 15.4% over 25 years, far exceeding inflation (~6%) and nominal GDP growth (~11%). This confirms genuine expansion in tax base, compliance, and economic activity.

Table 1: Direct Tax Collection Key Milestones (₹ Crores)

Year	Total Direct Tax (₹ Cr)	Multiple vs 2000-01	Significance
2000-01	68,305	1.0x	Baseline Year
2007-08	3,14,330	4.6x	First ₹3 lakh crore milestone
2017-18	10,02,738	14.7x	Crossed ₹10 lakh crore
2021-22	14,12,422	20.7x	Post-COVID Strong Recovery
2024-25	22,26,231	32.6x	Exceeded ₹22 lakh crore

Source: CBDT Time Series Data and Union Budget Documents

Focus Period: 2021-22 to 2024-25

As by the research methodology, the post pandemic recovery period is emphasized below. The average annual growth of 24.58% during 2021-25, combined with an average tax buoyancy of 1.88, validates direct taxes as an increasingly vital revenue source with collections nearly doubling in just four years.

Table 2: Year-on-Year Performance During Focus Period

Year	Direct Tax (₹ Cr)	YoY Growth	GDP Growth	Tax Buoyancy	Tax-GDP %
2021-22	14,12,422	49.12%	19.34%	2.54	5.97%
2022-23	16,63,686	17.79%	14.21%	1.25	6.17%

Year	Direct Tax (₹ Cr)	YoY Growth	GDP Growth	Tax Buoyancy	Tax-GDP %
2023-24	19,60,166	17.82%	9.60%	1.86	6.64%
2024-25	22,26,231	13.57%	N/A	N/A	N/A
Average	—	**24.58%**	14.38%	**1.88**	6.26%

Source: CBDT Time Series Data and MOSPI

Composition of Direct Tax

A significant structural shift has occurred: Personal Income Tax now contributes 53.1% of direct taxes in 2024-25, overtaking Corporate Tax at 44.3%. This reflects rising individual incomes, formalization of employment, the 2019 corporate tax rate reduction (30% to 22%), and better TDS compliance. Direct taxes' share in total tax revenue rose from 36.3% (2000-01) to 56.7% (2023-24), confirming their dominance in India's fiscal architecture.

Scenario-Based Analysis

Two critical scenarios are analyzed to examine how direct tax collections performed under different economic conditions and policy interventions.

Scenario 1: Economic Crisis Impact COVID-19 Analysis

This scenario examines direct tax resilience during the COVID-19 pandemic and subsequent recovery, providing insights into revenue stability during economic shocks.

Table 3: COVID-19 Impact on Direct Tax Collections

Year	Direct Tax (₹ Cr)	YoY Growth	GDP Growth	Phase
2019-20	10,50,681	-7.65%	6.29%	Pre-COVID
2020-21	9,47,176	-9.85%	-1.36%	COVID Impact
2021-22	14,12,422	+49.12%	19.34%	Strong Recovery
2022-23	16,63,686	+17.79%	14.21%	Sustained Growth
2023-24	19,60,166	+17.82%	9.60%	Consolidation

Source: CBDT and MOSPI Data

Key Findings:

- Crisis Vulnerability: The 9.85% decline in FY 2020-21 reflects direct taxes' high sensitivity to economic downturns both corporate profits and individual incomes directly correlate with economic activity.
- V-Shaped Recovery: The exceptional 49.12% rebound in FY 2021-22 shows that while direct taxes are vulnerable to shocks, they offer significant upside during recovery due to high buoyancy.
- Revenue Loss: The absolute revenue loss during COVID was ₹1,03,505 crores versus pre-COVID levels, underscoring the need for fiscal buffers.

• Objective 3 Link: The procyclical nature of direct taxes means they cannot provide automatic stabilization during crises unlike indirect taxes on essential consumption.

Scenario 2: Policy Reform Impact Analysis

This scenario evaluates the impact of three major policy interventions: the corporate tax rate reduction (2019), faceless assessment implementation (2020), and the digital compliance push (2021).

Table 4: Impact of Major Policy Reforms

Reform Measure	Year	Before (₹ Cr)	After Impact
Corporate Tax Rate Cut (30% → 22%)	Sep 2019	11,37,718	-7.65% decline (FY 19-20)
Faceless Assessment Scheme	Aug 2020	10,50,681	-9.85% (COVID overlap)
Digital Compliance & Post-COVID Recovery	FY 2021-22	9,47,176	+49.12% surge (FY 21-22)

Source: Ministry of Finance and CBDT

Key Findings:

• Corporate Tax Reduction: The cut from 30% to 22% (Sep 2019) aimed at competitiveness and investment. Isolated impact assessment is challenging due to COVID overlap, but long-term benefit is expected via improved ease-of-doing-business..

• Faceless Assessment: The true impact is visible post-COVID in improved compliance infrastructure, reduced litigation, and faster assessments supporting the strong revenue recovery.

• Digital Push: Mandatory e-filing, pre-filled returns, and PAN-Aadhaar linkage expanded the filer base from 6.79 crore (FY 2019-20) to 8.61 crore (FY 2023-24), a 26.8% increase.

• Objective 2 Link: Administrative measures and compliance improvement are more effective and sustainable than simply raising tax rates.

Simulation-Driven Analysis

Two simulation models are developed to project future scenarios and assess policy options, as mandated by the research methodology.

Simulation 1: Revenue Forecasting Model (2025–2030)

This simulation projects direct tax collections through 2030 under three growth scenarios based on historical patterns and economic assumptions.

Table 5: Revenue Projections (2025–2030) in ₹ Crores

Year	Conservative (8% CAGR)	Moderate (12% CAGR)	Optimistic (15% CAGR)
2024-25 (Base)	22,26,231	22,26,231	22,26,231
2025-26	24,04,329	24,93,379	25,60,166
2026-27	25,96,676	27,92,584	29,44,191
2027-28	28,04,410	31,27,694	33,85,820
2028-29	30,28,763	35,03,017	38,93,693
2029-30	32,71,064	**39,23,379**	44,77,747

Assumptions: Conservative = historical 2010-20 average (8%); Moderate = focus period 2021-25 average (12%); Optimistic = post-COVID recovery rate (15%)

Simulation Analysis:

- Moderate Scenario (12% CAGR): Collections projected to reach ₹39.23 lakh crores by 2029-30, nearly doubling from the 2024-25 base, assuming continued policy momentum and stable economic growth.
- Conservative Scenario (8% CAGR): Projects ₹32.71 lakh crores, reflecting slower growth or policy slippage scenarios.
- Optimistic Scenario (15% CAGR): Suggests potential of ₹44.78 lakh crores under aggressive reforms and high GDP growth.
- Most Likely Path: Given India's demographic dividend and ongoing digitalization, the moderate scenario (12% CAGR) is most achievable, requiring GDP growth of 8-9% and tax buoyancy above 1.3.
- Objective 1 Link: Direct taxes are set to play an even more critical role in revenue generation, with collections potentially doubling by 2030.

Simulation 2: Target Direct Tax-GDP Ratio Achievement

This simulation calculates the required growth rate to achieve a target Direct Tax-GDP ratio of 7%, considered the benchmark for emerging economies.

Table 6: Path to 7% Tax-GDP Ratio

Metric	Current (2023-24)	Target	Required
Direct Tax-GDP Ratio	6.64%	7.00%	+0.36%
Current GDP (₹ Cr)	2,95,35,667	—	—
Current Direct Tax (₹ Cr)	19,60,166	—	—

Metric	Current (2023-24)	Target	Required
Required Direct Tax for 7% (₹ Cr)	—	20,67,497	+1,07,331
Additional Revenue Needed	—	—	5.5% growth

Source: Calculated from CBDT and MOSPI Data

Simulation Analysis:

- Gap to Close: India needs approximately ₹1.07 lakh crores additional revenue at current GDP levels to reach the 7% benchmark (from 6.64%).
- Required Growth: With GDP growing at ~10% nominal, achieving this target requires direct tax growing at 15-16% for the next 2-3 years.
- Benefits of Achieving 7%: Enhanced fiscal space for infrastructure and welfare; reduced reliance on borrowings; improved tax administration credibility among emerging economies.
- Pathways: Further taxpayer base expansion, reducing exemptions, improved compliance through technology, bringing informal sector into the tax net, and better evasion enforcement.
- Objective 3 Link: A higher tax-GDP ratio enables greater redistribution and welfare spending, enhancing equity and inclusive growth.

Indian Knowledge System (IKS) Perspective

Kautilya's Arthashastra (circa 300 BCE) articulated timeless taxation principles that align remarkably with modern direct tax policy:

Table 7: IKS modern implementation

Arthashastra Principle	Classical Rationale	Modern Implementation
Equity (Sama)	Tax according to capacity	Progressive income tax slabs
Moderation (Madhyama)	Sustainable rates preserve economic vitality	Competitive corporate tax (22%)
Transparency (Parishuddhi)	Fair, corruption-free administration	Faceless assessment, digital filing
Efficiency (Dakshata)	Low cost of collection	Cost of collection: 0.44% (2023-24)
Welfare (Yogakshema)	Tax revenues serve public good	Revenue funds infrastructure, health, education

Source: Arthashastra text analysis and modern tax policy comparison

Key Findings and Conclusion

Objective 1 Role and Increase in Direct Taxes:

- 32.6 fold growth from ₹68,305 crores (2000-01) to ₹22,26,231 crores (2024-25); CAGR of 15.4%.
- Average annual growth of 24.58% during focus period 2021-25; 49.12% surge in 2021-22.
- Direct taxes now constitute 56.7% of total tax revenue (up from 36.3% in 2000-01).
- Direct Tax to GDP ratio improved from 3.25% (2000-01) to 6.64% (2023-24).

Objective 2 Policy Reforms and Administrative Measures:

- Taxpayer base grew 126.6% from 3.80 crore (2013-14) to 8.61 crore (2023-24).
- Tax buoyancy improved from 0.62 (2011-12) to average 1.88 (2021-24), validating faceless assessment and digital compliance.
- Cost of collection fell from 1.36% (2000-01) to 0.44% (2023-24) via technology adoption.

Objective 3 Equity, Inclusive Growth, and Stability:

- Personal income tax (progressive) now dominates at 53.1% vs corporate tax at 44.3%, enhancing equity.
- Compliance improvement of 20% could generate ₹4.45 lakh crores more effective than rate hikes.
- Under moderate scenario, direct taxes projected to reach ₹39.23 lakh crores by 2029-30.

Objective 4 — IKS Alignment:

- Modern direct tax policies embody Kautilya's principles: progressive equity, competitive rates, faceless transparency, and welfare orientation.

This analysis conclusively establishes that direct taxes have evolved from a supplementary revenue source to the cornerstone of India's fiscal architecture. The 32.6-fold growth over 25 years, sustained double-digit expansion during 2021-25, and improving tax-GDP ratio validate their critical and increasing role in revenue generation. Policy reforms particularly digitalization, faceless assessment, and base expansion have been instrumental in driving this transformation.

Looking ahead, direct taxes are positioned to play an even more pivotal role. Achieving 39-45 lakh crores by 2030 requires sustained focus on formalization of the informal sector, enhanced compliance mechanisms, and maintaining moderate, competitive tax rates. In doing so, India's fiscal policy fulfils both modern economic objectives and ancient philosophical principles of just and effective governance.

Results of the Study

After conducting an in-depth examination of the secondary data provided by CBDT, Union Budget reports, RBI reports, MOSPI GDP data, and publications by the ministry of finance, 2000 01-2024 25, the study concludes that the following key findings could be made:

Long-Term Revenue Expansion

- Direct tax collections amounted to ₹68,305 crores (2000-01) and 22,26,231 crores (2024-25) respectively, which is a purchase of 32.6 times.
- The Compound Annual Growth rate of 15.4 over 25 years is far more impressive than the average inflation (about 6), the average growth of nominal GDP (about 11), which is actually structural growth not just an effect of prices.

Direct Tax-GDP ratio increased by 3.25% (200001) to 6.64% (202324) and this fact illustrates improved fiscal capacity and formalization of the economy.

Findings: Direct taxes are no longer considered as the secondary source of revenue but the main column of fiscal framework of India.

Post-Pandemic Performance (Focus Period: 2021–22 to 2024–25)

- he mean growth in the area of focus in annual terms was 24.58%.
- A high tax buoyancy was displayed with a record high tax increase of 49.12% in 2021-22 (2.54).
- Importantly, the average rate of tax buoyancy in 2021-24 was 1.88, which proved that direct tax growth exceeded the GDP growth.
- Collections increased almost twice during four years.

Findings: Direct taxes are very responsive to an economic recovery, which confirms their use as a dynamic revenue tool.

Structural Shift in Composition

- Personal Income Tax 53.1% (202425): Double Corporate Tax (44.3%).
- The contribution of direct taxes to the tax revenue rose by 36.3 per cent (2000-01) to 56.7 per cent (2023-24).

Consequence: The tax system has been made more progressive and broad-based and enhanced equity in raising revenue.

Impact of Policy Reforms

The study finds that:

- Corporate tax rate cut (2019) temporarily lowered the collection and enhanced the competitiveness.
- Anonymous evaluation and online conformity were much better in terms of transparency and efficiency.
- There was an increase in the taxpayer base of 3.80 crore (2013-14) to 8.61 crore (2023-24) (126.6% growth).
- Collection cost has decreased to 0.44% (2023 24) down to 1.36% (2000-2001).

Findings: The growth in revenue due to administrative reforms and digitalization proves to be more lasting than that brought about by tax rate.

Crisis Sensitivity and Recovery Pattern

- FY 2020-21 COVID-19 Direct taxes dropped by 9.85 per cent in FY 2020-21.
- However there was a robust V-shaped recovery in FY 2021 22.
- The loss in revenue during COVID was 1,03,505 crores as compared to pre-pandemic days.

Findings: Direct taxes are procyclical - weak in bad times but very buoyant in good times.

Future Projections and Simulation Findings

Revenue Forecasting (2025–2030)

- Moderate growth case (12% CAGR) assumes collections of 3923 lakh crores by 2029-30.
- Positive scenario (15% CAGR) will project 44.78 lakh crores.

Tax-GDP Target Simulation

- At the current GDP levels, an extra 1.07 lakh crores is needed in order to attain a 7% Direct TaxGDP ratio.
- This demands 2 3 years of 15 -16 years direct tax growth.

Conclusion: Compliance expansion is viable and can be used to reach the target tax-GDP ratio of 7% instead of increasing the tax rates.

Indian Knowledge System (IKS) Alignment

The paper identifies a high conceptual consistency of the contemporary tax administration with the concepts stated in the Arthashastra:

- Equity to progressive tax.
- Competitive corporate tax rates are the result of moderation.
- Transparency -faceless assessment.
- Efficiency → Low cost of collection.
- Welfare orientation = Public expenditure funding.

Result: The current direct tax reforms portray the modern day economic strategy and the ancient Indian philosophy of governance.

Conclusion

This study conclusively proves that direct taxes have come to be the pivotal point of the Indian fiscal structure. The collections have increased by 32.6 times in over 25 years with continued double-digit growth, higher tax buoyancy, and higher tax-GDP ratio and large enhancement in administrative efficiency. The dynamism of direct taxes was also consolidated in the post-pandemic period as the collections increased almost twice in four years.

The study points out three important conclusions:

1. Structural Transformation: There is the overtaking of total tax revenue by taxes on income, which implies effective formalization, expansion of tax base.

2. *Reform-based GDP: Digitalization, anonymous evaluation, growth of compliance, and middle tax rates have proven to be more productive than increasing the rates..*

3. Potential Future: India has potential to obtain 39-45 lakh crores of direct tax collections by the year 2030 and obtain a Direct Tax-GDP ratio of 7 percent if it keeps its policy focused.

Nonetheless, direct taxes are pro-cyclical which means that fiscal buffers should be accumulated when the economy is on an upward trend, to deal with downturn shocks.

The modern system of direct taxation in India is based on the ideas of equity, moderation, transparency, efficiency, and welfare orientation, as it is similar to the Arthashastra described by Kautilya. Therefore, direct taxation does not only enhance revenue collection, but also promotes a sustainability and inclusive system of economic governance.